

**WELLS TOWNSHIP SCHOOL DISTRICT #18
ARNOLD, MICHIGAN**

**FINANCIAL STATEMENTS
For the Year Ended June 30, 2005**

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INDEPENDENT AUDITORS' REPORT

Board of Education
Wells Township School District #18
PO Box 108
Arnold, Michigan 49819

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Wells Township School District #18, as of and for the year ended June 30, 2005, which collectively comprise the Wells Township School District #18's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Wells Township School District #18's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund and the aggregate remaining fund information of the Wells Township School District #18 as of June 30, 2005, and the respective changes in financial position where for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 27 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued a separate report to management dated August 26, 2005 on our consideration of the Wells Township School District #18 internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of the testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Board of Education
Wells Township School District #18
PO Box 108
Arnold, Michigan 49819

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Wells Township School District #18 basic financial statements. The combining and individual nonmajor fund financial statements and schedules as listed in the accompanying table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements of Wells Township School District #18. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, based on our audit, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 26, 2005

Wells Township School District #18 Management's Discussion and Analysis (Unaudited)

Our discussion and analysis of Wells Township School District #18 financial performance provides an overview of the School District's financial activities for the year ended June 30, 2005. Please read it in conjunction with the financial statements, which begin on page 11.

FINANCIAL HIGHLIGHTS

- Net assets for Wells Township School District #18 as a whole were reported at \$356,127. Net assets are comprised of 100% governmental activities.
- During the year, Wells Township School District #18 expenses were \$396,863, while revenues from all sources totaled \$402,409, resulting in an increase in net assets of \$5,546.
- The general fund reported an increase of \$21,577 before other financing sources (uses) and a total increase of \$15,436. This is \$3,647 or 31% higher than the forecasted increase of \$11,789.

USING THIS ANNUAL REPORT

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Wells Township School District #18 financially as a whole. The *District-wide Financial Statements* Statement of Net Assets and the Statement of Activities (on pages 10 and 11) provide information about the activities the School District as a whole and present a longer-term view of those finances. The fund financial statements present the next level of detail and start on page 12. For governmental activities, these statements tell how these services were financed in the short term as well as what remains for future spending. The fund financial statements also report the School District's operations in more detail than the district-wide statements by providing information about the School District's most significant fund – the General Fund, with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

Reporting the School District as a Whole – *District-wide Financial Statements*

Our analysis of the Wells Township School District #18 as a whole begins on page 6. One of the most important questions asked about the School District's finances is "As a whole, what is the School District's financial condition as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the School District as a whole and about its activities in a way that helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets and changes in them. The School District's net assets - the difference between assets and liabilities - are one way to measure the School District's financial health, or financial position. Over time, increases or decreases in the School District's net assets – as reported in the Statement of Activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as private-sector companies do. One must consider other non-financial factors, such as the quality of education provided, the safety of the schools and the condition of the School District's capital assets, to assess the overall

Management's Discussion and Analysis (Unaudited) (Continued)

financial health of the School District.

The Statement of Net Assets and Statement of Activities report the governmental activities for the School District, which encompass all the School District's services, including instruction, supporting services, community services, athletics, and food services. Property taxes, unrestricted State Aid (foundation allowance revenue), and State and Federal grants finance most of these activities.

Reporting the School District's Most Significant Funds – *Fund Financial Statements*

Our analysis of the School District's major funds begins on page 8. The fund financial statements begin on page 13 and provide detailed information on the most significant funds – not the School District as a whole. Some funds are required to be established by State law, and by bond covenants. However, the School District's Board has established other funds to help it control and manage money for particular purposes. The School District's two kinds of funds - *governmental* and *proprietary* – use the following accounting methods.

- *Governmental funds* – All of the School District's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed short-term view of the School District's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the Statement of Net Assets and Statement of Activities) and governmental funds in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – The School District does not have any Proprietary funds.

The School District as a Whole

Table 1 provides a summary of the School District's net assets as of June 30, 2005 and 2004:

Table 1 Net Assets		
	Governmental Activities – 2005	Governmental Activities - 2004
Current and other assets	\$374,222	\$379,647
Capital assets, net	53,900	56,400
Total Assets	428,122	436,047
Current liabilities	49,224	70,085
Long-term liabilities	22,771	15,381
Total Liabilities	71,995	85,466
Net Assets:		
Invested in capital assets, net of related debt	53,900	56,400
Restricted	-	-
Unrestricted	302,227	294,181
Total Net Assets	\$356,127	\$350,581

Management's Discussion and Analysis (Unaudited) (Continued)

The School District's net assets were \$356,127 at June 30, 2005. Capital assets, net of related debt totaling \$53,900, compares the original cost, less depreciation of the School District's capital assets to long-term debt, including accreted interest on capital appreciation bonds, used to finance the acquisition of those assets. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. The remaining amount of net assets of \$302,227 was unrestricted.

The \$302,227 in unrestricted net assets of governmental activities represents the accumulated results of all past years' operations. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the Statement of Activities (see Table 2), which shows the changes in net assets for fiscal years 2005 and 2004.

TABLE 2
CHANGE IN NET ASSETS

	Governmental Activities – 2005	Governmental Activities – 2004
Revenues:		
Program revenues:		
Charges for services	\$ 21,541	\$8,215
Operating grants and contributions	41,495	42,253
General revenues:		
Property taxes	317,799	316,209
State sources not restricted to specific program	11,706	4,870
Investment earnings	6,713	1,676
Miscellaneous	3,155	13,139
Total Revenues	402,409	386,362
Program Expenses:		
Instruction	188,514	229,024
Supporting services	182,606	164,003
Payments to other governmental units	5,974	-
Food service activities	19,769	20,856
Depreciation – unallocated	-	5,335
Total Expenses	396,863	419,218
Increase (decrease) in net assets	5,546	(32,856)
Net assets, beginning	350,581	383,437
Net Assets, Ending	\$ 356,127	\$350,581

As reported in the Statement of Activities, the cost of all of our governmental activities this year was \$396,863.

Management's Discussion and Analysis (Unaudited) (Continued)

The School District experienced an increase in net assets for the year of \$5,546.

Table 3 presents the cost of each of the School District's largest activities as well as each program's net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the School District's operation.

Table 3
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$188,514	\$149,246
Supporting services	182,606	172,466
Payments to other governmental units	5,974	5,974
Food service activities	19,769	6,141
Totals	<u>\$396,863</u>	<u>\$333,827</u>

The net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of the School District's operating revenue sources, the Board of Education and Administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available financial resources.

The School District's Funds

As noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed the year, its governmental funds (as presented in the balance sheet on page 12) reported a combined fund balance of \$324,998, an increase of \$15,436 from the beginning of the year. The change in the combined fund balance was a result of decreased expenditures brought on by a mid-year decrease in State appropriations.

General Fund Budgetary Highlights

Over the course of the year, the School District's Board revises its budget as it attempts to deal with changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplemental information of these financial statements.

Changes to the General Fund original budget occurred during the annual budget reviews in January and June 2005.

BUDGETED REVENUES

General Fund Revenues changed from original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$358,117</u>	<u>\$386,106</u>	<u>\$27,989</u>	<u>7.8%</u>

Management's Discussion and Analysis (Unaudited) (Continued)

Wells Township School's final budgeted revenues differed from the original budget as follows:

- By \$27,989 or 7.8%

The significant increase in the budgeted revenue can be attributed mainly to grants (\$23,195). Grants are recognized on Wells Township School's financial statements once the school received formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant revenues that will be utilized in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year.

BUDGETED EXPENDITURES

General Fund expenditures changed from the original to final budget during the year as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$360,095</u>	<u>\$369,614</u>	<u>\$9,519</u>	<u>2.6%</u>

Wells Township School's final budgeted expenditures differed from the original budget as follows:

- By \$9,619 or 2.6%

The significant increase in the budgeted expenditures can be attributed mainly to grants. Grants are recognized on the Wells Township School's financial statements once the school receives formal notice of award and approval from the state. Hence, no grants were awarded at the time of the original budget whereas all grants were awarded and approved by the time of the final budget. Also, the final budgets include grant expenditures that will be expended in the next fiscal year. The District budgeted the entire grant awarded by the grantors, even if the grants were to be eligible for carryover in the next fiscal year.

ACTUAL REVENUES

The General Fund actual revenues differed from the final budget as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$388,781</u>	<u>\$386,106</u>	<u>\$2,675</u>	<u>1.0%</u>

Wells Township School's final budgeted revenues differed from the actual revenues as follows:

- By \$2,675 or 1.0% greater than the final budget.

The significant variance in revenue can be attributed mainly to State Aid of \$4,642. This was due to actual state aid being greater than anticipated.

ACTUAL EXPENDITURES

General Fund actual expenditures differed from the final budget as follows:

	Original Budget	Final Budget	Budget Variance	
			Amount	Percent
Total	<u>\$367,204</u>	<u>\$369,614</u>	<u>(\$2,410)</u>	<u>(0.7%)</u>

Management's Discussion and Analysis (Unaudited) (Continued)

Wells Township School's final budgeted expenditures differed from the actual revenues as follows:

- By \$(2,410) or .7% less than the final budget.

The significant variance in expenditures can be attributed mainly to special education services received from Gwinn Community Schools were less than anticipated \$(1,445).

Capital Asset and Debt Administration

Capital Assets

At June 30, 2005 and 2004, the School District had \$53,900 and \$56,400, respectively invested in a variety of capital assets including land, buildings, and buses. (See table 4 below)

TABLE 4
Capital Assets

	Governmental Activities - 2005	Governmental Activities - 2004
Land	\$ 150	\$ 150
Land improvements	11,375	11,375
Buildings	230,000	230,000
Equipment and furnishings	-	-
Buses	85,503	85,503
	327,028	327,028
Less accumulated depreciation	(273,128)	(270,628)
Totals	\$ 53,900	\$ 56,400

There were no current year additions. We anticipate capital additions for the 2005-2006 fiscal years will be comparable to the 2004-2005 fiscal years. Depreciation expense for the year was \$2,500.

Debt

There were no new additions to debt this year. At the end of this year, the School District had no bonds outstanding. We present more information about our long-term debt in the notes to the financial statements.

Economic Factors and Next Year's Budgets

Our elected officials and administration consider many factors when setting the School District's fiscal year 2006 budget. One of the most important factors affecting the budget is the collection of local property taxes. Local property taxes account for approximately 80 percent of our revenue.

The collection of revenues by the State can also affect the School District's general operation budget as it did in 2005. School districts throughout the state must adjust their budgets if the State decreases the pupil foundation grant or categorical funding during its fiscal year. While we are optimistic about the 2005-06 school years, the state of the economy on a state and national level will be reflected in our budget.

Contacting the School District's Financial Management

This financial report is designated to provide the School District's citizens, taxpayers, customers, and investors and creditors with a general overview of the School District's finances and to demonstrate the School District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the Wells Township School District #18 Administration, P.O. Box 108, Arnold, Michigan, 49819.

Wells Township School, District #18

Statement of Net Assets

June 30, 2005

	<u>Governmental Activities</u>
ASSETS:	
Current assets:	
Cash and cash equivalents	\$ 361,886
Investments	-
Receivables:	
Accounts receivable	322
Due from other governmental units	11,809
Inventories	205
Prepaid expenses	-
	<hr/>
TOTAL CURRENT ASSETS	<u>374,222</u>
Non-current assets:	
Capital assets	327,028
Less accumulated depreciation	(273,128)
	<hr/>
TOTAL NON-CURRENT ASSETS	<u>53,900</u>
	<hr/>
TOTAL ASSETS	<u>428,122</u>
LIABILITIES:	
Current liabilities:	
Accounts payable	10,084
Accrued payroll and other liabilities	38,845
Due to other governmental units	-
Deferred revenue	295
Current portion of long term debt obligations	-
Other current liabilities	-
	<hr/>
TOTAL CURRENT LIABILITIES	<u>49,224</u>
Non-current liabilities:	
Non-current portion of employee benefit obligations	22,771
	<hr/>
TOTAL NON-CURRENT LIABILITIES	<u>22,771</u>
	<hr/>
TOTAL LIABILITIES	<u>71,995</u>
NET ASSETS:	
Invested in capital assets net of related debt	53,900
Unrestricted	302,227
	<hr/>
TOTAL NET ASSETS	<u>\$ 356,127</u>

See Notes to Financial Statements.

Wells Township School, District #18

Statement of Activities

For the Year Ended June 30, 2005

Function / Programs	Expenses	Program Revenue		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental Activities:				
Instruction	\$ 188,514	\$ 8,759	\$ 30,509	\$ (149,246)
Supporting services	182,606	10,140	-	(172,466)
Payments to others	5,974	-	-	(5,974)
Food service activities	19,769	2,642	10,986	(6,141)
TOTAL GOVERNMENTAL ACTIVITIES	396,863	21,541	41,495	(333,827)
General revenues:				
Taxes				
Property taxes, levied for general purposes				317,799
State Aid not restricted to specific purposes				
General				11,706
Interest and investment earnings				6,713
Miscellaneous				3,155
TOTAL GENERAL REVENUES AND TRANSFERS				339,373
			CHANGES IN NET ASSETS	5,546
Net Assets , July 1				350,581
			NET ASSETS, JUNE 30	\$ 356,127

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

Balance Sheet

June 30, 2005

	General Fund	Other Non-major Governmental Funds (Lunch Fund)	Total
ASSETS:			
Cash and cash equivalents	\$ 360,470	\$ 1,416	\$ 361,886
Investments	-	-	-
Receivables:			
Accounts receivable	-	322	322
Due from other governmental units	11,809	-	11,809
Due from other funds	-	-	-
Inventories	-	205	205
Prepaid expenditures	-	-	-
TOTAL ASSETS	\$ 372,279	\$ 1,943	\$ 374,222
LIABILITIES AND FUND BALANCES:			
LIABILITIES:			
Accounts payable	\$ 8,874	\$ -	\$ 8,874
Accrued liabilities	36,902	1,943	38,845
Due to other governmental units	-	-	-
Due to other funds	1,210	-	1,210
Deferred revenue	295	-	295
Other liabilities	-	-	-
TOTAL LIABILITIES	47,281	1,943	49,224
FUND BALANCES:			
Unreserved	324,998	-	324,998
TOTAL FUND BALANCES	324,998	-	324,998
TOTAL LIABILITIES AND FUND BALANCES	\$ 372,279	\$ 1,943	\$ 374,222

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets

June 30, 2005

Total Fund Balances for Governmental Funds	\$	324,998
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*Amounts reported for governmental activities in the statement
of net assets are different because:*

Capital assets used in governmental activities are not financial
resources and therefore are not reported in the funds.

Cost of capital assets	327,028	
Accumulated depreciation	<u>(273,128)</u>	
		53,900

Long-term liabilities are not due and payable in the current period and are
not reported in the funds. Long-term liabilities at year-end consist of:

Employee benefits payable (other than those reported in internal service fund)	<u>22,771</u>	
		(22,771)

NET ASSETS OF GOVERNMENTAL ACTIVITIES	\$	<u>356,127</u>
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Wells Township School, District #18

Governmental Funds

Statement of Revenues, Expenditures and Changes in Fund Balance

For the Year Ended June 30, 2005

	General Fund	Other Non-major Governmental Funds (Lunch Fund)	Total
REVENUES:			
Federal sources	\$ 20,471	\$ 10,663	\$ 31,134
State sources	10,087	323	10,410
Local sources:	<u>358,223</u>	<u>2,642</u>	<u>360,865</u>
TOTAL REVENUES	<u>388,781</u>	<u>13,628</u>	<u>402,409</u>
EXPENDITURES:			
Current:			
Instruction	181,124	-	181,124
Supporting Services	180,106	-	180,106
Payments to others	5,974	-	5,974
Food service activities	<u>-</u>	<u>19,769</u>	<u>19,769</u>
TOTAL EXPENDITURES	<u>367,204</u>	<u>19,769</u>	<u>386,973</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	<u>21,577</u>	<u>(6,141)</u>	<u>15,436</u>
OTHER FINANCING SOURCES (USES):			
Transfers in	-	6,141	6,141
Transfers (out)	<u>(6,141)</u>	<u>-</u>	<u>(6,141)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(6,141)</u>	<u>6,141</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	15,436	-	15,436
Fund Balance, July 1	<u>309,562</u>	<u>-</u>	<u>309,562</u>
FUND BALANCE, JUNE 30	<u><u>\$ 324,998</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 324,998</u></u>

See Notes to Financial Statements.

Wells Township School, District #18

Governmental Funds

**Reconciliation of the Governmental Funds Statement of Revenues, Expenditures
and Changes in Fund Balance to the Statement of Activities**

For the Year Ended June 30, 2005

Net Change in Fund Balances - Total Governmental Funds	\$	15,436
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*Amounts reported for governmental activities in the statement
of activities are different because:*

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which depreciation exceeded capital outlays in the current period.

Depreciation expense	2,500	
Capital outlays	<u>-</u>	(2,500)

Some expense reported in the Statement of Activities, such as compensated absences, do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

(7,390)

Change in Net Assets of Governmental Activities

\$	<u>5,546</u>
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See Notes to Financial Statements.

WELLS TOWNSHIP SCHOOL DISTRICT #18

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of the Wells Township School District #18 conform to accounting principles generally accepted in the United States of America as applicable to school districts. The following is a summary of the more significant policies:

Reporting Entity

In evaluating how to define the School District, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic but not the only criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering whether the activity benefits the School District and/or its constituents, or whether the activity is conducted within the geographic boundaries of the School District and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financial relationships, regardless of whether the School District is able to exercise oversight responsibilities.

Based upon the application of these criteria, the financial statements of the Wells Township School District #18 contain all the funds and account groups controlled by the District's Board of Education as no other entity meets the criteria to be considered a component unit of the School District nor is the School District a component unit of another entity.

BASIS OF PRESENTATION

District-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the School District as a whole. They include all funds of the School District except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through State sources, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services. All of the School District's district-wide activities are considered to be governmental activities.

Fund Financial Statements:

The accounts of the School District are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped in the financial statements in this report

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

into two major categories: governmental and proprietary categories. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the School District are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The School District reports the General Fund as its only major governmental fund in accordance with the above criteria. The funds of the School District are described below:

Governmental Funds

General Fund - The General Fund is the main operating fund and accordingly, it is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds – The special revenue funds account for revenue sources that are legally restricted to expenditures for specific purposes (not including major capital projects), such as the School Service.

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus

On the district-wide Statement of Net Assets and the Statement of Activities, governmental activities are presented using the economic resource measurement focus as defined in item (b) below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.

Basis of Accounting

In the district-wide Statement of Net Assets and Statement of Activities, governmental activities are presented using the accrual basis of accounting. Also, the proprietary fund financial statements are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when "measurable and available." Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year-end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

Cash and Equivalents

The School District cash and cash equivalents as reported in the Statement of Net Assets are considered to be cash on hand, demand deposits, certificates of deposit and short-term investments with maturities of three months or less.

Investments

Investments are carried at market value.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible.

Due From and To Other Funds

Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.

Inventory

The School District utilizes the consumption method of recording inventories of materials and food supplies. Under the consumption method, inventories are recorded as expenditures when they are used. The inventory is valued at the lower of cost (first-in, first-out) or market.

Capital Assets

Capital assets, which include land, buildings, equipment, and vehicles, are reported in the applicable governmental activities column in the district-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$5,000 and any assets susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if actual historical cost is not available. Donated capital assets are valued at their estimated fair value on the date donated. Costs of normal repair and maintenance that do not add to the value or materially extend asset lives are not capitalized.

The School District does not have infrastructure-type assets.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and additions	20 – 50 years
Buses and other vehicles	5 – 10 years
Furniture and other equipment	5 – 10 years

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Capital assets used in proprietary fund operations are accounted for the same as in the district-wide financial statements.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Long-Term Debt

In the district-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest are reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the district-wide statements.

Compensated Absences

The School District's policies regarding compensated absences permits employees to accumulate earned but unused vacation and sick leave. The liability for these compensated absences is recorded as long-term debt in the district-wide statements. In the fund financial statements, governmental funds report only the compensated absence liability payable from expendable available financial resources, while proprietary funds report the liability as it is incurred.

Deferred Revenues

In the district-wide statements, deferred revenue is recognized when cash, receivables or other assets are received prior to their being earned. In the governmental fund statements, deferred revenue is recognized when revenue is unearned or unavailable.

Equity Classification

District-Wide Statements

Equity is classified as net assets and displayed in three components:

- a. Invested in Capital Assets, Net of Related Debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
- b. Restricted Net Assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
- c. Unrestricted Net Assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate.

Revenues

District-Wide Statements

In the district-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues include all revenues, which do not meet the criteria of program revenues and include revenues such as State funding and interest earnings.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

Fund Statements

In the governmental fund statements, revenues are reported by source, such as federal sources, state sources and charges for services. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency. When both general purpose and restricted revenues are available for use, it is the School District's policy to use the restricted resources first.

Property Taxes

Property tax revenue is recognized in the year for which taxes have been levied, provided they are available to finance expenditures of the current period.

Expenses/Expenditures

District-Wide Statements

In the district-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements

In the governmental fund financial statements, expenditures are classified by character such as current operations, debt service and capital outlay.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity

As a general rule, the effect of interfund activity has been eliminated from the district-wide statements. Exceptions to this rule are (1) activities between funds reported as governmental activities and funds reported as business-type activities; and (2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets between funds without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets.

Budgets and Budgetary Accounting

The School District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the Board of Education a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is approved by the Board of Education.
- d. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles. Budgeted amounts are as originally adopted, or as amended by the Board of Education.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued):

e. All annual appropriations lapse at fiscal year end.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTE B – DEPOSITS AND INVESTMENTS:

At year-end, the School District's cash and cash equivalents and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Fiduciary Funds	Total Primary Government
Cash and equivalents	<u>\$361,886</u>	<u>\$ -</u>	<u>\$361,886</u>

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. State law does not require and the District does not have a deposit policy for custodial credit risk. As of June 30, 2005, \$71,629 of the District's bank balance of \$371,629 was exposed to custodial credit risk as being uninsured and uncollateralized.

NOTE C – DUE FROM OTHER GOVERNMENTAL UNITS:

Amounts due from other governmental units consist of various revenues due from federal and state sources for the operation of special programs and grant projects.

NOTE D – INTERFUND TRANSFERS IN AND TRANSFERS OUT:

The transfers between funds for the year ended June 30, 2005 for Lunch Fund Appropriations are as follows:

<u>Fund</u>	<u>Transfer Out</u>	<u>Fund</u>	<u>Transfer In</u>
General	<u>\$6,141</u>	School Service	<u>\$6,141</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them and (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE E – CAPITAL ASSETS:

Capital asset activity of the School District's governmental activities was as follows:

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital assets not being depreciated:				
Land	\$ 150	\$ -	\$ -	\$ 150
Construction in progress	-	-	-	-
Capital assets being depreciated:				
Land improvements	11,375	-	-	11,375
Buildings and additions	230,000	-	-	230,000
Equipment and furniture	-	-	-	-
School buses	<u>85,503</u>	<u>-</u>	<u>-</u>	<u>85,503</u>
Total Capital Assets	<u>327,028</u>	<u>-</u>	<u>-</u>	<u>327,028</u>

NOTE E – CAPITAL ASSETS (Continued):

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Less accumulated depreciation:				
Land improvements	\$(11,375)	\$ -	\$ -	\$ (11,375)
Buildings and additions	(173,750)	(2,500)	-	(176,250)
Equipment and furniture	-	-	-	-
School buses	(85,503)	-	-	(85,503)
Total Accumulated Depreciation	(270,628)	(2,500)	-	(273,128)
CAPITAL ASSETS, NET	\$ 56,400	\$ (2,500)	\$ -	\$ 53,900

Depreciation expense charged to governmental activities was \$2,500.

NOTE F – ACCRUED EMPLOYEE BENEFITS:

The School District offers terminal leave benefits for teachers to be earned in varying amounts depending on the employee's years of service. The sick leave liability has been calculated in accordance with GASB #16.

As of June 30, 2005, accrued employee benefits reported in the Statement of Net Assets consist of the following:

Terminal Leave	\$ -
Sick Leave	22,771
TOTAL	<u>\$22,771</u>

NOTE G – FOUNDATION REVENUE AND CONTINGENCY RECEIVABLE AND PAYABLE:

For the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. In previous years, the state utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenue from state sources is primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2005, the foundation allowance was based on the average of pupil membership counts taken in February and October of 2004.

The state portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by non-homestead property taxes which may be levied at a rate of up to 18 mills. The state revenue is recognized during the foundation period (currently the fiscal year) and is funded through 11 payments from October 2004 - August 2005. The local revenue is recognized as outlined in Note A - Property Taxes.

NOTE H – EXCESS OF ACTUAL EXPENDITURES OVER BUDGET IN INDIVIDUAL FUNDS:

The following funds had an excess of actual expenditures over appropriations for the year ended June 30, 2005:

	Excess Expenditures
General Fund:	
Operations and maintenance	\$1,580
Pupil Transportation	611
Special Revenue Funds:	
Food Service Activities	1,616

NOTE I – EMPLOYEE RETIREMENT SYSTEM - DEFINED BENEFIT PLAN:

Substantially all of the District's employees are eligible to participate in the statewide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing public employee retirement system. Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. Employees first hired on or after January 1, 1990 will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of creditable service or at age sixty while still working with a minimum total of five years of creditable service and with credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date. The retirement allowance is calculated using a formula of 1.5% of the average of the highest total earnings during a period of thirty-six consecutive calendar months (three years) multiplied by total years to the nearest tenth of a year of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten or more years of credited service; or with thirty or more years of credited service; or attaining age fifty-five while still working at least fifteen but fewer than thirty years of credited service in each of the five school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five years) multiplied by the total years to the nearest tenth of a year of credited service. The MPERS also provides death, disability, health, medical, dental, and vision and hearing insurance coverage. Benefits are established by state statute.

The District was required by state statute to contribute 12.99% of covered compensation to the Plan through September 30, 2004 and 14.87% of covered compensation for the remainder of the year. The total amount contributed to the Plan for the year ended June 30, 2005 was \$33,677 which consisted of \$26,938 from the District and \$6,738 from employees electing the MIP option. These represent approximately 14.29% and 3.57% of covered payroll, respectively.

Payroll paid to employees covered by the System for the year ended June 30, 2005 was approximately \$188,489. The District's total payroll was approximately \$192,293.

The District is not responsible for the payment of retirement benefits which is the responsibility of the State of Michigan. MPERS' issues a publicly available financial report that includes financial statements and required supplementary information for the system. More information may be obtained by writing MPERS at MPERS, P.O. Box 30673, Lansing, Michigan 48909-8173.

NOTE J – CONTINGENT LIABILITIES:

Grant Assistance

The School District has received significant assistance from federal and state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and are subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the applicable fund of the School District.

NOTE J – CONTINGENT LIABILITIES (Continued):

Risk Management

The School District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees' and natural disasters. The School District was unable to obtain general liability insurance at a cost it considered to be economically justifiable. The School District joined together with other units and created a public entity risk pool currently operating as a common risk management and insurance program. The School District pays an annual premium to the pool for its general insurance coverage. The agreement provides that the pool will be self-sustaining through member premiums and will reinsure through commercial companies for claims in excess of \$500,000 for each insured event.

The School District continues to carry commercial insurance for all other risks of loss. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

The pooling agreement allows for the pool to make additional assessments to make the pool self-sustaining. The School District is unable to provide an estimate of the amounts of additional assessments that may be required to make the pool self-sustaining.

NOTE K – ECONOMIC DEPENDENCY:

The School District receives approximately 16 percent of its revenues through State and Federal sources to be used for providing elementary and secondary education to the students of Wells Township School District #18.

REQUIRED SUPPLEMENTAL INFORMATION

Wells Township School, District #18

General Fund

Budgetary Comparison Schedule

For the Year Ended June 30, 2005

	Budgeted Amounts		Actual (GAAP Basis)	Variances Positive (Negative)	
	Original	Final		Original Budget to Final Budget	Final Budget to Actual
REVENUES:					
Local sources	\$ 347,542	\$ 357,466	\$ 358,223	\$ 9,924	\$ 757
State sources	10,575	5,445	10,087	(5,130)	4,642
Federal sources	-	23,195	20,471	23,195	(2,724)
TOTAL REVENUES	358,117	386,106	388,781	27,989	2,675
EXPENDITURES:					
Instruction:					
Basic Instruction	160,732	176,556	175,577	(15,824)	979
Special Education	28,542	5,581	5,547	22,961	34
Total Instruction	189,274	182,137	181,124	7,137	1,013
Supporting Services:					
Improvement of Instruction	-	4,208	2,501	(4,208)	1,707
Board of Education	11,400	7,012	6,587	4,388	425
Principal/Administration	39,640	44,224	44,153	(4,584)	71
Operation and Maintenance	48,736	53,722	55,362	(4,986)	(1,640)
Pupil Transportation	71,045	70,892	71,503	153	(611)
Total Supporting Services	170,821	180,058	180,106	(9,237)	(48)
Payments to Others					
Gwinn School District	-	7,419	5,974	(7,419)	1,445
Total Supporting Services	-	7,419	5,974	(7,419)	1,445
TOTAL EXPENDITURES	360,095	369,614	367,204	(9,519)	2,410
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(1,978)	16,492	21,577	18,470	5,085
OTHER FINANCING SOURCES (Uses)					
Transfers out	(7,427)	(4,703)	(6,141)	2,724	(1,438)
NET CHANGE IN FUND BALANCE	(9,405)	11,789	15,436	21,194	3,647
Fund Balance, July 1	309,562	309,562	309,562	-	-
FUND BALANCE, JUNE 30	\$ 300,157	\$ 321,351	\$ 324,998	\$ 21,194	\$ 3,647

OTHER SUPPLEMENTAL INFORMATION

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
REVENUES:			
Local Sources:			
Property tax levy	\$ 317,799	\$ 317,799	\$ -
Income from investments	5,614	6,713	1,099
Medicaid fee for service	8,759	8,759	-
USF contribution	-	3,519	3,519
Transportation payments	10,140	10,140	-
County special education	7,923	8,138	215
Other local revenue	7,231	3,155	(4,076)
Total Local Sources	<u>357,466</u>	<u>358,223</u>	<u>757</u>
State Sources:			
State school aid - unrestricted	5,445	11,526	6,081
Restricted:			
Durant funds	-	180	180
Special education	-	(1,619)	(1,619)
Other grants received through MARESA	-	-	-
Total State Sources	<u>5,445</u>	<u>10,087</u>	<u>4,642</u>
Federal Sources:			
Restricted - received through the federal government:			
REAP	23,195	16,795	(6,400)
Restricted - received through the state:			
Title V, Part A	-	401	401
Title II, Part A	-	2,677	2,677
Restricted - received through MARESA:			
Other grants	-	598	598
Total Federal Sources	<u>23,195</u>	<u>20,471</u>	<u>(2,724)</u>
TOTAL REVENUES	<u>386,106</u>	<u>388,781</u>	<u>2,675</u>
EXPENDITURES:			
Instruction:			
Basic Instruction:			
Salaries	176,556	112,320	64,236
Employee benefits	-	54,256	(54,256)
Purchased services	-	705	(705)
Supplies and materials	-	7,224	(7,224)
Capital outlay	-	1,072	(1,072)
Other expense	-	-	-
Total Basic Instruction	<u>176,556</u>	<u>175,577</u>	<u>979</u>

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Special Education			
Salaries	\$ 5,581	\$ 3,125	\$ 2,456
Employee benefits	-	2,422	(2,422)
Purchased services	-	-	-
Supplies and materials	-	-	-
Capital outlay	-	-	-
Other expense	-	-	-
Total Special Education	<u>5,581</u>	<u>5,547</u>	<u>34</u>
TOTAL INSTRUCTION	<u>182,137</u>	<u>181,124</u>	<u>1,013</u>
Supporting Services:			
Improvement of Instruction			
Salaries	4,208	180	4,028
Employee benefits	-	41	(41)
Purchased services	-	2,269	(2,269)
Supplies and materials	-	11	(11)
Capital outlay	-	-	-
Other expense	-	-	-
Total Improvement of Instruction	<u>4,208</u>	<u>2,501</u>	<u>1,707</u>
Board of Education:			
Salaries	7,012	-	7,012
Employee benefits	-	-	-
Purchased services	-	5,825	(5,825)
Supplies and materials	-	55	(55)
Capital outlay	-	-	-
Other expense	-	707	(707)
Total Board of Education	<u>7,012</u>	<u>6,587</u>	<u>425</u>
Principal/Administration:			
Salaries	44,224	20,511	23,713
Employee benefits	-	14,218	(14,218)
Purchased services	-	5,571	(5,571)
Supplies and materials	-	636	(636)
Capital outlay	-	2,555	(2,555)
Other expense	-	662	(662)
Total Principal/Administration	<u>44,224</u>	<u>44,153</u>	<u>71</u>

Wells Township School, District #18

General Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	Final Budget	Actual	Variance Favorable (Unfavorable)
Operation and Maintenance:			
Salaries	\$ 53,722	\$ 9,726	\$ 43,996
Employee benefits	-	4,609	(4,609)
Purchased services	-	24,174	(24,174)
Supplies and materials	-	16,853	(16,853)
Capital outlay	-	-	-
Other expense	-	-	-
Total Operations and Maintenance	<u>53,722</u>	<u>55,362</u>	<u>(1,640)</u>
Pupil Transportation:			
Salaries	70,892	30,834	40,058
Employee benefits	-	24,755	(24,755)
Purchased services	-	6,386	(6,386)
Supplies and materials	-	9,528	(9,528)
Capital outlay	-	-	-
Other expense	-	-	-
Total Pupil Transportation	<u>70,892</u>	<u>71,503</u>	<u>(611)</u>
TOTAL SUPPORTING SERVICES	<u>180,058</u>	<u>180,106</u>	<u>(48)</u>
Payments to Others			
Gwinn - special education services	5,800	4,712	1,088
Gwinn - transportation services	1,619	1,262	357
TOTAL PAYMENTS TO OTHERS	<u>7,419</u>	<u>5,974</u>	<u>1,445</u>
TOTAL EXPENDITURES	<u>369,614</u>	<u>367,204</u>	<u>2,410</u>
EXCESS REVENUES (EXPENDITURES)	<u>16,492</u>	<u>21,577</u>	<u>5,085</u>
Other Financing Sources (Uses):			
Transfers Out:			
School Service	(4,703)	(6,141)	(1,438)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(4,703)</u>	<u>(6,141)</u>	<u>(1,438)</u>
NET CHANGE IN FUND BALANCE	11,789	15,436	3,647
Fund Balance, July 1	309,562	309,562	-
FUND BALANCE, JUNE 30	<u>\$ 321,351</u>	<u>\$ 324,998</u>	<u>\$ 3,647</u>

Wells Township School, District #18

School Lunch Fund

**Schedule of Revenues, Expenditures and Changes
in Fund Balance - Budget and Actual**

For the Year Ended June 30, 2005

	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)
REVENUES:			
School lunch activities	\$ 2,700	\$ 2,642	\$ (58)
State aid	-	323	323
Federal sources			
Hot lunch	10,750	8,335	(2,415)
USDA entitlements	-	2,006	2,006
USDA bonus	-	322	322
TOTAL REVENUES	<u>13,450</u>	<u>13,628</u>	<u>178</u>
EXPENDITURES:			
School lunch activities:			
Salaries	18,153	10,389	7,764
Fringe benefits	-	2,339	(2,339)
Purchased services	-	-	-
Supplies and materials	-	7,041	(7,041)
Capital outlay	-	-	-
Other expense	-	-	-
TOTAL EXPENDITURES	<u>18,153</u>	<u>19,769</u>	<u>(1,616)</u>
EXCESS REVENUES (EXPENDITURES)	(4,703)	(6,141)	(1,438)
OTHER FINANCING SOURCES:			
Operating transfer in	<u>4,703</u>	<u>6,141</u>	<u>1,438</u>
NET CHANGE IN FUND BALANCE	-	-	-
Fund Balance, July 1	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

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MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Wells Township School District #18
PO Box 108
Arnold, Michigan, 49819

We have audited the governmental activities, each major funds, and the aggregate remaining fund information, which collectively comprise the basic financial statements of Wells Township School District #18 as of and for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about Wells Township School District #18's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. These instances are described in a separate letter to management dated August 26, 2005.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Wells Township School District #18's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the finance committee, management, state and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants

August 26, 2005



ANDERSON, TACKMAN & COMPANY, P.L.C.

CERTIFIED PUBLIC ACCOUNTANTS

PARTNERS

JOHN W. BLEMBERG, CPA

ROBERT J. DOWNS, CPA, CVA

DANIEL E. BIANCHI, CPA

MICHIGAN
ESCANABA
IRON MOUNTAIN
KINROSS
MARQUETTE
WISCONSIN
GREEN BAY
MILWAUKEE

Wells Township School District #18

*Report to Management Letter
For the Year Ended June 30, 2005*

Board of Education
Wells Township School District #18
Arnold, Michigan 49819

In planning and performing our audit of the financial statements of the Wells Township School District #18 for the year ended June 30, 2005; we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control. However, we noted certain matters involving the internal control and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control that, in our judgment, could affect the Wells Township School District #18's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Instances of Non-Compliance

Uniform Budgeting and Accounting Act (P.A. 621)

The State of Michigan has enacted Public Act 621, the Uniform Budgeting and Accounting Act, to provide for a system of uniform procedures for the preparation and execution of budgets in local units of government. The purpose of P.A. 621 is to require that all local units of government adopt balanced budgets, to establish responsibilities and define the procedure for the preparation, adoption and maintenance of the budget, and to require certain information for the budget process, including data for capital construction projects. The major provisions of P.A. 621 are as follows:

1. Local Units of government must adopt a budget.
2. The budget, including accrued deficits and available unappropriated surpluses, must be balanced.
3. The budget must be amended when necessary.
4. Debt shall not be entered into unless the debt is permitted by law.
5. Expenditures shall not be incurred in excess of the amount appropriated.
6. Expenditures shall not be made unless authorized in the budget.
7. Violations of the act, disclosed in an audit of the financial records, in the absence of reasonable procedures, shall be filed with the State Treasurer and reported to the Attorney General.

Board of Education
Wells Township School District #18
Arnold, Michigan 49819

The Wells Township School District #18 was found to be in violation of the legal and contractual provisions of the Uniform Budgeting and Accounting Act (Public Act 621) in certain individual funds as enumerated upon in the Footnotes of the financial statements.

* * * * *

This report is intended solely for the information and use of the Wells Township School District #18 board, management, and other legislative or regulatory body and is not intended to be and should not be used by anyone other than these specified parties.

We appreciate and would like to thank the Wells Township School District #18's staff for the cooperation and courtesy extended to us during our audit. We would be pleased to discuss any comments or answer any questions regarding our audit with you at your convenience.

Anderson, Tackman & Company, PLLC
Certified Public Accountants

August 26, 2005



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August 26, 2005

Board of Education
Wells Township School District #18
Arnold, Michigan 49819

We have audited the financial statements of the Wells Township School District #18 for the year ended June 30, 2005, and have issued our report thereon dated August 26, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Wells Township School District #18. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of the accounting policies and their application. The significant accounting policies used by the Wells Township School District #18 are described in Footnotes to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the fiscal year. We noted no transactions entered into by the Wells Township School District #18 during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Significant Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgement, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Wells Township School District #18 financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the

Board of Education
Wells Township School District #18
Arnold, Michigan 49819

Wells Township School District #18, either individually or in the aggregate, indicates matters that could have a significant effect on the Wells Township School District #18's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultation with Other Independent Accountants

In some cases, management may decide to consult with other accountants about accounting and auditing matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principal to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Wells Township School District #18's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in the performance of our audit.

Conclusion

This information is intended solely for the use of the Wells Township School District #18 Board and management and is not intended to be and should not be used by anyone other than these specified parties.

Anderson, Tackman & Company, PLC
Certified Public Accountants